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Commentary

Small-Mid Cap Core Portfolio

October 2026

Market Review

October was a volatile month as concerns around AI infrastructure spending pressured many AI-linked companies, even as the average stock held up better. Interest rates remained a key backdrop, with Treasury yields reaching multi-decade highs and hotter-than-expected inflation weighing on equities. Oil prices stayed elevated amid geopolitical tensions, while the Federal Reserve held rates steady in late October as markets continued to anticipate a possible December hike.

Within the Russell 2500 Index, information technology was the clear laggard, led by a steep decline in semiconductors and semiconductor equipment, with communications equipment and technology hardware also weak as investors reassessed the AI buildout. Software held up comparatively well. Industrials also finished lower, with electrical equipment and aerospace and defense among the weaker areas. Energy, consumer staples, consumer discretionary, and utilities were among the strongest sectors, helped by higher oil prices and a rotation toward steadier businesses outside the AI complex, while health care, financials, and real estate posted modest gains.

Quality was also a clear beneficiary in October. Lower beta, lower volatility, stronger credit profiles, and higher profitability all outperformed, while more speculative and richly valued companies lagged. Investors favored profitability and resilience over risk. Scrutiny of heavy capital spending also extended beyond the largest AI-linked companies. The most capital-intensive companies underperformed, with returns generally improving as capital intensity declined. Investors were increasingly focused on the returns generated by incremental investment.

Portfolio Overview

The Small-Mid Cap Core portfolio outperformed the Russell 2500 Index for the month. Stock selection in industrials and information technology contributed positively to performance. Stock selection in financials as well as no exposure to energy detracted from performance.

The biggest contributors to performance during the month were Allegion and ServiceTitan.

- Allegion shares advanced after third quarter results showed solid organic revenue growth led by strength in non-residential, and management raised its full-year revenue and earnings outlook.
- ServiceTitan shares continued to recover from their early September post-earnings decline as the company expanded its AI-powered offering to all residential contractors, and software proved more resilient than other parts of technology.
- Other top contributors included Equifax, Exponent, and Jack Henry & Associates.

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The biggest detractors from performance during the month were Interactive Brokers and Bright Horizons.

- Interactive Brokers shares declined after reporting third quarter results as investors focused on lower stock trading volumes, slightly softer margins and a premium valuation, despite continued strong growth in client accounts.
- Bright Horizons shares fell after the company lowered its full-year outlook with third quarter results, citing slower new enrollments in its U.K. centers following a regulatory safeguarding notice. It also recorded a non-cash impairment tied mainly to Australia, despite continued strength in back-up care.
- Other bottom detractors included LPL Financial, Zurn Elkay Water Solutions, and Zebra Technologies.

Outlook

As we head into the final two months of the year, October was a reminder of how quickly market leadership can change. Growing scrutiny of AI infrastructure spending broadened market participation, while quality and capital discipline were rewarded--a more constructive backdrop for the portfolio. Third quarter results from our holdings have been largely solid, though the market has been unforgiving of disappointments. Higher rates remain a cross-current, but portfolio valuations are attractive, and we believe continued strong operating results should ultimately be reflected in share prices.

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IMPORTANT DISCLOSURES

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This strategy may not be suitable or appropriate for all investors depending on their specific investment objectives and financial situation. Potential investors should consult with their own financial professional before determining whether to invest in a particular investment or investment strategy.

IMPORTANT RISK CONSIDERATIONS: IMPORTANT RISK CONSIDERATIONS: Equity Securities: *The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small, medium, or large-sized companies may enhance that risk.* ***Industrial Concentration:*** *Because the portfolio is presently heavily weighted in the industrial sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification.* ***Limited Number of Investments:*** *Because the portfolio has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a portfolio with a greater number of securities.* ***Market Volatility:*** *The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended.*

Index Definition: The Russell Midcap® Index *is a free float-adjusted market capitalization-weighted index of medium-capitalization stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.*